

State of Indiana



JUNE 30, 2002

A REPORT TO INDIANA CITIZENS ON THE STATE'S FINANCES



Connie K. Nass, Auditor of State

www.in.gov/auditor/

Auditor of State of Indiana
Connie K. Nass
240 State House
200 W. Washington St.
Indianapolis, IN 46204-2793



Auditor of State

Connie Kay Nass

TELEPHONE (317) 232-3300
FACSIMILE (317) 232-6097
<http://www.in.gov/auditor>

Dear Indiana Citizens:

Indiana ended the 2001-2002 Fiscal Year on June 30, 2002, with a General and Property Tax Replacement Fund Surplus ("Surplus") of \$522,005,889. The balance in the General Fund, which by law may not be negative, was zero. The State was able to meet that requirement through a combination of payment delays, spending cuts, transfers from non-reverting accounts, and a mandatory transfer from the Rainy Day Fund to the General Fund.

Despite the lower Surplus, which is 57% of last year's Surplus balance, the State of Indiana maintained a total cash balance in all accounts (including the Surplus and all other outside accounts) of \$3,528,169,052. This figure, shown below, is actually up from the \$3,244,048,481 figure reported as of December 31, 2001.

The Surplus as a percentage of state operating revenue has dropped for the fourth year in a row to 5.9%, the lowest level since the 1982 recession. This ratio is roughly 4% less than what many prudent fiscal analysts believe to be an optimal balance to operating revenues ratio.

This Report also focuses on the Property Tax Restructuring bill, House Enrolled Act 1001(ss), passed by the legislature and signed into law by the Governor this summer. Estimates of additional revenue resulting from HEA 1001(ss), as predicted by the Legislative Services Agency, are set forth on pages 4 and 5.

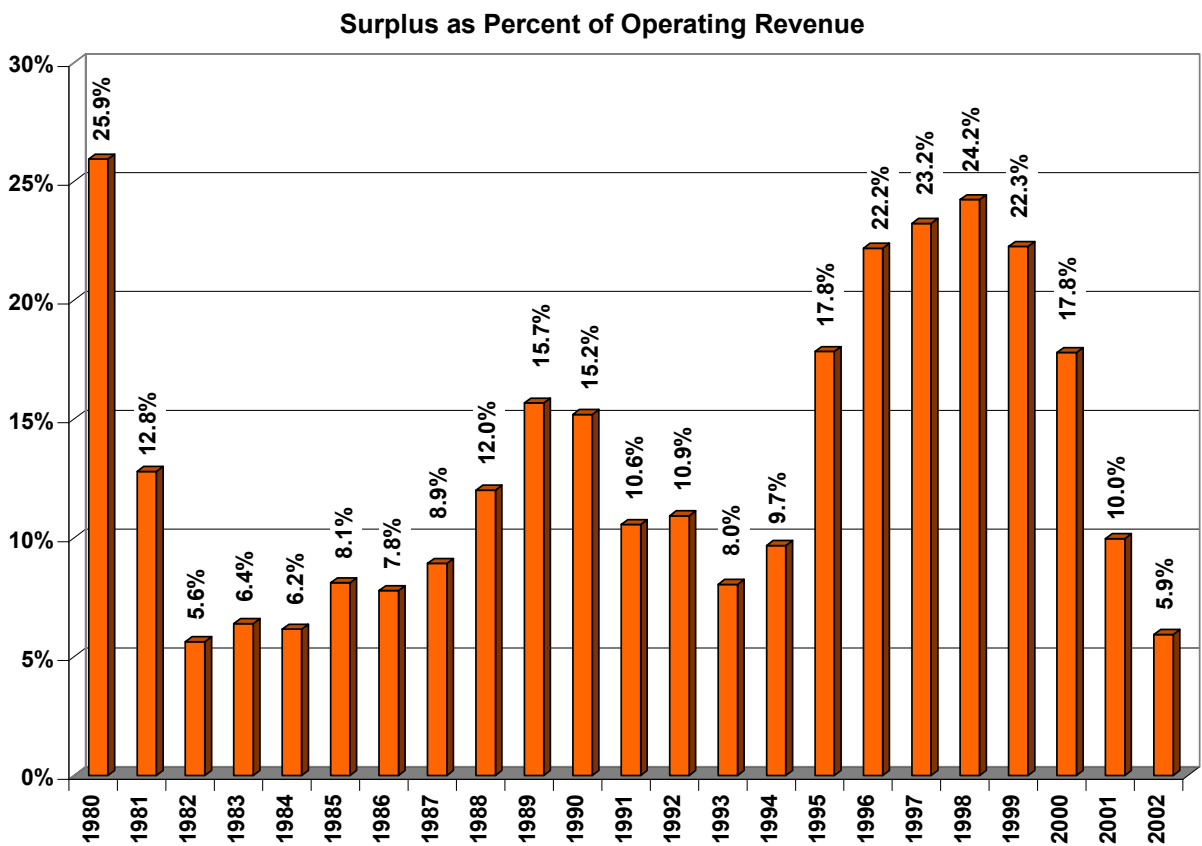
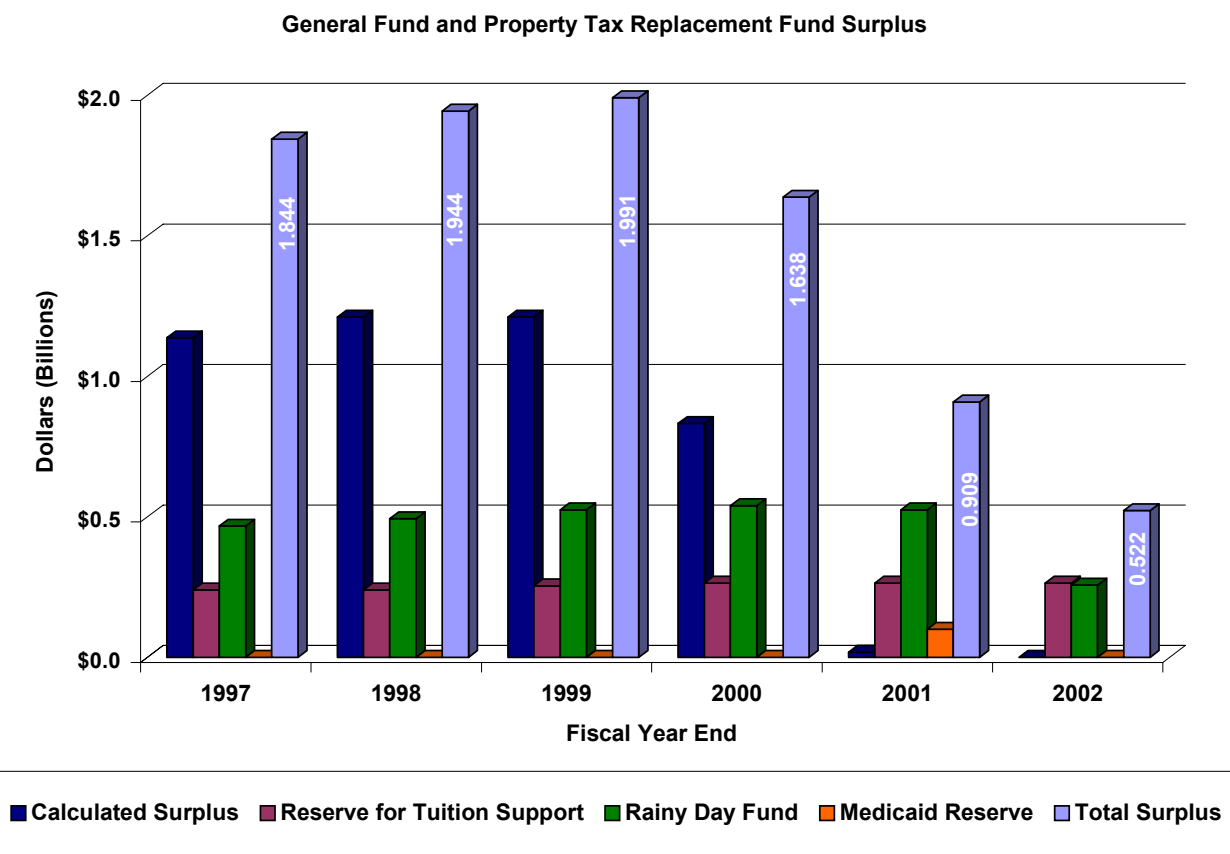
If you have questions or comments about this publication or its contents, please e-mail me at comments@audlan.state.in.us, or call (317) 232-3300. You may also view this report along with other information at our website www.in.gov/auditor.

Sincerely,
Connie Nass
Auditor of State

Cash and Investment Balances (all funds) as of June 30, 2002

	Accounts Used In Calculating The Surplus	Accounts Not Used In Calculating The Surplus	Total All Funds
General Fund Cash and Investments	\$ 272,743,423	\$ 712,643,941	\$ 985,387,364
Rainy Day Fund	257,005,889		257,005,889
Total General Fund Cash and Investments	<u>529,749,312</u>	<u>712,643,941</u>	<u>1,242,393,253</u>
Non General Fund Cash and Investments	<u>-</u>	<u>2,285,775,799</u>	<u>2,285,775,799</u>
Grand Total All Funds Cash and Investments	<u>\$ 529,749,312</u>	<u>\$ 2,998,419,740</u>	<u>\$ 3,528,169,052</u>

General Fund and Property Tax Replacement Fund Surplus



General and Property Tax Replacement Fund Surplus (Continued)

For budgetary purposes, Indiana State government's “General Fund and Property Tax Replacement Fund Surplus” is also referred to as the “General Fund Surplus.” The General Fund Surplus is calculated monthly and reported to the State Budget Agency.

The graph at the top of page 2 shows the fiscal year-end surplus for 1997 through 2002. The General Fund surplus has decreased from a high of \$1,990,785,908 in 1999 to \$522,005,889 at the close of the 2002 fiscal year. The graph illustrates the four components of the surplus which are the Calculated Surplus (surplus excluding reserve components), the Reserve for Tuition Support, the Rainy Day Fund, and the Medicaid Reserve.

In April of 2002 the State Board of Finance authorized \$441,503,662 to be transferred into the General Fund from other specified dedicated funds as funds became available. By fiscal year-end \$396,297,839 had been transferred.

The Medicaid Reserve of \$100 million was first included in 2001. At the end of fiscal year 2002, the \$100 million was transferred to the General Fund. The Reserve for Tuition Support has increased since 1997 and currently has a balance of \$265 million. The Rainy Day Fund now totaling \$257,005, 889 decreased by \$268,108,524 from the 2001 year-end balance. Of the \$268,108,524 decrease, \$230,624,263 was transferred to the General Fund at the end of 2002 to bring the calculated surplus up to a zero balance.

The calculated surplus that shows a zero balance at year-end would have been a negative \$330,624,263 had it not been for the \$100,000,000 transfer from the Medicaid Reserve and the \$230,624,263 transfer from the Rainy Day Fund.

A two-year comparison of the components of the General Fund and Property Tax Replacement Fund Surplus is shown below.

	<u>FY 2001</u>	<u>FY 2002</u>	<u>Difference</u>
Calculated Surplus	\$ 18,627,951	\$ 0	\$(18,627,951)
Reserve for Tuition Support	265,000,000	265,000,000	0
Rainy Day Fund	525,114,413	257,005,889	(268,108,524)
Medicaid Reserve	<u>100,000,000</u>	<u>0</u>	<u>(100,000,000)</u>
Total General Fund Surplus	\$908,742,364	\$522,005,889	\$(386,736,475)

The graph at the bottom of page 2 shows the percentage relationship between the General Fund and Property Tax Replacement Fund surplus and General Fund and Property Tax Replacement Fund operating revenues. This ratio is an important indicator of the financial health of the State. The 5.9% surplus at the end of fiscal year 2002 is the lowest since the recession of 1982 when the surplus was 5.6%. For 2002 operating revenues were \$8.796 billion, up from the 1982 operating revenues of only \$2.744 billion.

House Enrolled Act No. 1001 (ss) - “An Act to amend the Indiana Code concerning state and local finance and to make an appropriation.”

The following table presents projected changes in the General Fund and Property Tax Replacement Fund revenue, expenditures, and other items that affect the General Fund and Property Replacement Fund surplus balance as enacted in House Enrolled Act 1001 (special session). The Legislative Services Agency, which is a bipartisan service and administrative agency of the General Assembly, calculated the amounts shown. The last line showing the net change to the General Fund and Property Tax Replacement Fund balance only reflects the projected changes as a result of HEA 1001 (ss). The table does not show the affect of revenues and expenditures that have been approved or may be approved in other legislative acts.

House Enrolled Act 1001 (special session)
 Summary of Projected Changes in General Fund and Property Tax Replacement Fund Revenues, Expenditures, and Other Items
 Projected Amounts Provided by The Legislative Services Agency

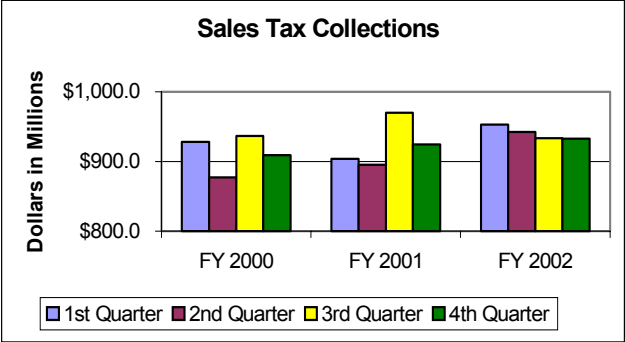
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
State Revenue - Increase (Decrease)					
Sales Tax 6% (add 1%)	\$ 393,000,000	\$ 806,400,000	\$ 827,366,400	\$ 848,877,926	\$ 870,948,752
Renters Deduction - \$2,500 (add \$500) at 3.4% Rate	-	(10,889,000)	(11,097,000)	(11,308,000)	(11,523,894)
Earned Income Tax Credit - 6% of Federal Credit	(8,700,000)	(21,400,000)	(22,700,000)	(13,700,000)	-
Corporate Taxes					
Elimination of Corporate Gross Income Tax (Except Utilities)	(81,650,000)	(168,200,000)	(173,200,000)	(178,396,000)	(183,747,880)
Elimination Supplemental Net Income Tax / Raise Adjusted Gross Income Tax	28,600,000	58,900,000	60,700,000	62,521,000	64,396,630
Utilities Receipts Tax (1.4% Gross on Regulated Receipts, Adjusted Gross Income Tax - 8.5%)	29,100,000	59,900,000	61,700,000	63,551,000	65,457,530
Research and Development Credit - 10% (add 5%) Eliminate Apportionment	(23,000,000)	(47,900,000)	(24,800,000)	-	-
Venture Capital Investment Tax Credit	-	(5,000,000)	(10,000,000)	(10,000,000)	(10,000,000)
Cigarette Tax - \$.555 (add \$.40) 18% Tobacco Products (add 3%) Vendor Discount (1.2%)	268,200,000	293,500,000	295,000,000	296,500,000	297,900,000
Wagering Taxes					
Eliminate Old Rates (New Rates are 15% - 35%) (Flexible Boarding) Freeze 2002 Distribution	290,365,000	314,638,000	339,761,000	351,652,635	363,960,477
Admission Tax - \$3 Turnstile Count (Flexible Boarding) Freeze 2002 Distribution	(38,000,000)	(36,200,000)	(34,400,000)	(33,540,000)	(32,701,500)
Withholding of Out-of-state Winnings	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000
Taxation of Lottery Winnings over \$1,200	3,950,000	3,950,000	3,950,000	3,950,000	3,950,000
Revenue Sharing for Counties Without Riverboats	-	33,000,000	33,000,000	33,000,000	33,000,000
Total Additional State Revenues	\$ 876,865,000	\$ 1,295,699,000	\$ 1,360,280,400	\$ 1,428,108,561	\$ 1,476,640,115
State Expenditures - (Increase) Decrease					
School General Fund Levy Reduction	\$ (533,458,745)	\$ (1,081,320,877)	\$ (1,110,516,541)	\$ (1,140,500,487)	\$ (1,171,294,000)
Homestead Credit (After Property Tax Replacement Credit)	(77,687,458)	(248,756,672)	(351,938,989)	(372,101,586)	(400,805,080)
Eliminate Existing Property Tax Replacement Credit on all Property	474,922,182	962,667,263	988,659,279	1,015,353,080	1,042,767,613
New Property Tax Replacement Credit (Real Property, Mobile Homes, Individual Personal Property Only)	(286,291,185)	(595,184,891)	(626,127,543)	(643,032,987)	(676,091,961)
School Transportation Levy Property Tax Replacement Credit Savings	234,231	728,174	1,275,164	1,879,517	2,545,863
Revenue Sharing for Counties Without Riverboats	-	(33,000,000)	(33,000,000)	(33,000,000)	(33,000,000)
Total Additional State Expenditures	\$ (422,280,975)	\$ (994,867,003)	\$ (1,131,648,630)	\$ (1,171,402,463)	\$ (1,235,877,565)
Other Changes					
Provide Funding to the 21st Century Research and Technology Fund	\$ (15,000,000)	\$ (15,000,000)	\$ -	\$ -	\$ -
Cap Transfers to the Build Indiana Fund at \$250 Million a Year	128,700,000	128,700,000	128,700,000	128,700,000	128,700,000
Eliminate \$37,500 Assessed Value Income Tax Credit Scheduled to Start in 2004	-	95,976,991	97,896,531	99,854,461	101,851,550
Total Other Changes	\$ 113,700,000	\$ 209,676,991	\$ 226,596,531	\$ 228,554,461	\$ 230,551,550
Net Changes to the General Fund and Property Tax Replacement Fund Balance	\$ 568,284,025	\$ 510,508,988	\$ 455,228,301	\$ 485,260,559	\$ 471,314,100

How Will HEA 1001(ss) Affect Property Taxes?

Under HEA 1001(ss), the Homestead deduction from an individual’s gross assessed property value increases from \$6,000 to \$35,000 prior to the computation of gross tax. The Homestead credit also increased to 20%. That means that the state pays 20% of your tax bill. For several years the state has paid 10%, but that amount was scheduled to drop to 4% next year. The 20% Property Tax Replacement Credit does not apply to business personal property. However, the state will now pay 60% of the school general fund levy for all properties. County Auditors administer these matters. Their names and office numbers are listed below by county for your convenience.

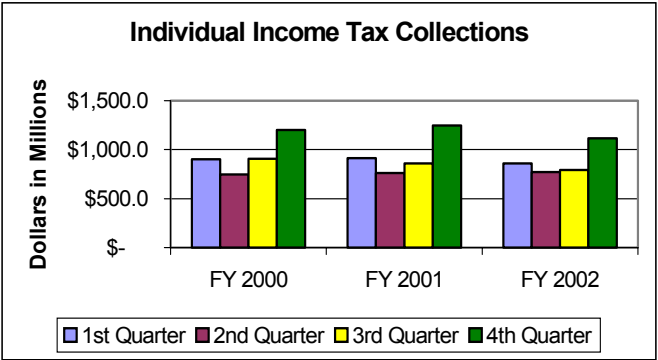
COUNTY	AUDITOR	PHONE	COUNTY	AUDITOR	PHONE
ADAMS	GLEND A BURRY	260-724-2600	LAWRENCE	JACK D. CUMMINGS	812-277-2033
ALLEN	THERESE M. BROWN	260-449-7241	MADISON	PATRICIA DILLON	765-641-9427
BARTHOLOMEW	VERNON JEWELL	812-379-1510	MARION	MARTY WOMACKS	317-327-3005
BENTON	PATRICIA A. CLOUSE	765-884-0760	MARSHALL	JAN ALLEN QUIVEY	574-935-8555
BLACKFORD	ROLLIN G. BROWN	765-348-7200	MARTIN	FRANCES K. TAYLOR	812-247-3731
BOONE	GRETCHEN SMITH	765-482-2940	MIAMI	BRENDA WEAVER	765-472-3901
BROWN	KATHI S. SMITH	812-988-5485	MONROE	BARBARA M. CLARK	812-349-2519
CARROLL	LINDA L. RED ELK	765-564-3172	MONTGOMERY	NELDA J. HESTER	765-364-6400
CASS	DAWN R. CONNER	574-753-7722	MORGAN	BRENDA ADAMS	765-342-1001
CLARK	BARBARA BRATCHER-HASS	812-285-6215	NEWTON	MARCIA L.SCOTT	219-474-6081
CLAY	WILLIAM E. MORTH LAND	812-448-9001	NOBLE	SHELLEY MAWHORTER	260-636-2658
CLINTON	GREGORY L. TIMMONS	765-659-6330	OHIO	DEBORAH THOMASON	812-438-2062
CRAWFORD	TERRY L. STROUD	812-338-2601	ORANGE	JOHN F. NOBLITT	812-723-3600
DAVI ESS	JO ANN McCRACKEN	812-254-8682	OWEN	BOBBY L. HALL	812-829-5003
DEARBORN	CARY B. PICKENS	812-537-8815	PARKE	DIANA HAZLETT	765-569-3422
DECATUR	JANET S. CHADWELL	812-663-2570	PERRY	DEBRA A. ELDER	812-547-6427
DEKALB	SHARON G. HAYES	260-925-2362	PIKE	SHARON BOOTH	812-354-6451
DELAWARE	JANE LASATER	765-747-7717	PORTER	SANDRA VUKO	219-465-3445
DUBOIS	MARTHA A. WEHR	812-481-7000	POSEY	RON BENNETT	812-838-1300
ELKHART	STEPHEN J. MALONE	574-535-6719	PULASKI	SHERYL D. DEGROT	574-946-3653
FAYETTE	JANE L. KLEMME	765-825-8987	PUTNAM	KRISTINA M. WARREN	765-653-5513
FLOYD	BARBARA SILLINGS	812-948-5433	RANDOLPH	PHILLIP HOLLIDAY	765-584-3149
FOUNTAIN	PATTI SMITH	765-793-2243	RIPLEY	MARK E. BUSCHING	812-689-6311
FRANKLIN	CAROL L. MONROE	765-647-4631	RUSH	MARY ANN BEARD	765-932-2077
FULTON	DENISE J. BONNELL	574-223-2912	ST. JOESPH	JOSEPH F. NAGY	574-235-9668
GIBSON	KEN W. GREUBEL	812-385-4927	SCOTT	PAM BARGER	812-752-8408
GRANT	JUDITH E. CARMICHAEL	765-668-8871	SHELBY	MARGARET L. BRUNK	317-392-6382
GREENE	SUE McDONALD	812-384-8658	SPENCER	SARA J. ARNOLD	812-649-6004
HAMILTION	ROBIN M.MILLS	317-776-8400	STARKE	MARIAM JOHNSON	574-772-9105
HANCOCK	JOSEPH D. SETTLES	317-462-1105	STEUBEN	KIM KOOMLER	260-668-1000
HARRISON	KAREN E. ENGLEMAN	812-738-8241	SULLIVAN	JUDY K. HARRIS	812-268-4491
HENDRICKS	NANCY MARSH	317-745-9315	SWITZERLAND	J.C. RAMSEY	812-427-3302
HENRY	LINDA C. WINCHESTER	765-529-2800	TIPPECANOE	ROBERT A. PLANTENGA	765-423-9207
HOWARD	MARTHA LAKE	765-456-2215	TIPTON	LISA A. DEVER	765-675-2794
HUNTINGTON	DONALD SCHOEFF	260-358-4825	UNION	VIRGINIA BOSTICK	765-458-5464
JACKSON	MARIA MCCRARY	812-358-6161	VANDERBURGH	SUZANNE M. CROUCH	812-435-5763
JASPER	RITA J. STEELE	219-866-4930	VERMILLION	RUTH ANN SWINFORD	765-492-3570
JAY	FREDA CORWIN	260-726-7575	VIGO	JAMES W. BRAMBLE	812-462-3361
JEFFERSON	FRED W. KOEHLER	812-265-8942	WABASH	CAROL STEFANATOS	260-563-0661
JENNINGS	EDWIN B. JUDD	812-352-3016	WARREN	JACQUELINE BRIER	765-762-3275
JOHNSON	DEBORAH A. SHUTTA	317-736-3089	WARRICK	RICHARD I. KIXMILLER	812-897-6110
KNOX	DODI BLACKBURN	812-885-2502	WASHINGTON	LANA SULLIVAN	812-883-4805
KOSCIUSKO	SUE ANN MITCHELL	574-372-2328	WAYNE	CHRIS BEESON	765-973-9317
LAGRANGE	KAY M. MYERS	260-499-6310	WELLS	MARY A. TOWNE	260-824-6470
LAKE	PETER BENJAMIN	219-755-3120	WHITE	MARY JO POOL	574-583-1515
LAPORTE	KENNETH E. LAYTON	219-326-6808	WHITLEY	BETTE J. GRUBE	260-248-3100

General and Property Tax Replacement Fund Revenue Trends (Cash Basis)



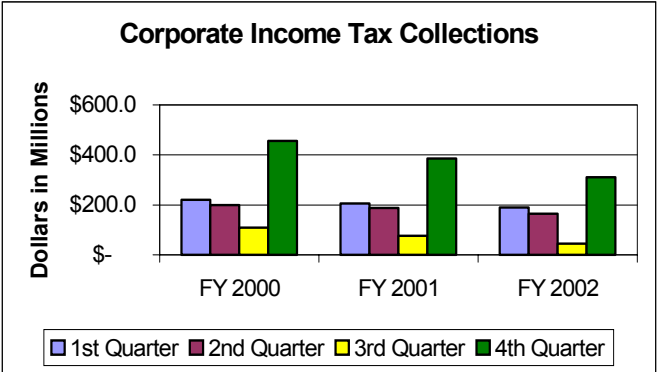
	Sales Tax (Dollars in Millions)		
	FY 2000	FY 2001	FY 2002
1st Quarter	\$ 928.1	\$ 903.9	\$ 953.1
2nd Quarter	877.1	895.3	942.3
3rd Quarter	936.9	970.1	933.3
4th Quarter	909.3	924.6	932.7
Total	\$ 3,651.4	\$ 3,693.9	\$ 3,761.4

Sales, corporate, and individual income taxes made up over 90% of the General Fund and Property Tax Replacement Fund revenue for fiscal year 2002. Over the last two years, sales tax collections have increased. Collections for fiscal year 2001 increases by \$42.5 million or 1.2% over fiscal year 2000. Collections for fiscal year 2002 increased by \$67.5 million or 1.8% over fiscal year 2001 collections. Fiscal year 2002 sales tax collections were \$30.0 million or 0.8% below the November 14, 2001 revenue forecast.



	Individual Income Tax (Dollars in Millions)		
	FY 2000	FY 2001	FY 2002
1st Quarter	\$ 901.5	\$ 912.6	\$ 860.2
2nd Quarter	745.5	762.1	770.8
3rd Quarter	906.5	859.3	793.7
4th Quarter	1,199.8	1,245.8	1,116.1
Total	\$ 3,753.3	\$ 3,779.8	\$ 3,540.8

Individual income tax collections for fiscal year 2002 fell below the amount collected for fiscal year 2000 and 2001. Although fiscal year 2001 collections increased by \$26.5 million or 0.7% over fiscal year 2000 collections, the amount collected in fiscal year 2002 was \$239.0 million or 6.3% below fiscal year 2001 collections and \$212.5 million or 5.7% below fiscal year 2000 collections. Fiscal year 2002 individual income tax collections were \$190.8 million or 5.1% below the November 14, 2001 revenue forecast.



	Corporate Income Tax (Dollars in Millions)		
	FY 2000	FY 2001	FY 2002
1st Quarter	\$ 220.4	\$ 205.6	\$ 189.8
2nd Quarter	199.7	187.9	164.5
3rd Quarter	108.6	75.7	44.2
4th Quarter	456.6	386.1	310.9
Total	\$ 985.3	\$ 855.3	\$ 709.4

Corporate income tax collections experienced the most dramatic percentage change of the three taxes shown on this page. Collections decrease in fiscal year 2001 and 2002. Fiscal year 2001 collections decrease by \$130.0 million or 13.2% from fiscal year 2000 collections. Fiscal year 2002 collections decreased by \$145.9 million or 17.1% from fiscal year 2001 and decreased by \$275.9 million or 28.0% from 2000 collections. Fiscal year 2002 corporate income tax collections were \$120.6 million or 14.5% below the November 14, 2001 revenue forecast. For fiscal year 2002 total collections of these three taxes were \$341.4 million or 4.1% below the November 14, 2001 revenue forecast that was prepared by the Economic Forecast Committee.